

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

THE MAGNAVOX COMPANY, et al.,)
Plaintiffs,)
v.)
BALLY MANUFACTURING CORPORATION, et al.,)
Defendants.)
)
)
)
)
)
)
CONSOLIDATED
CIVIL ACTION NOS.
74 C 1030
74 C 2510

APPENDIX TO MEMORANDUM IN SUPPORT OF
MOTION OF DEFENDANT MIDWAY MFG. CO.
TO SEVER AND TRANSFER

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Attorneys for Defendant
Midway Mfg. Co.

I N D E X

Description

EXHIBIT

- A. Letter of Magnavox counsel to Midway dated April 2, 1973.
- B. Letter of Magnavox counsel to Midway dated May 24, 1973.
- C. Complaint For Declaratory Relief filed In The United States District Court For The Southern District Of New York on April 12, 1974.
- D. Magistrate's Report dated July 28, 1975.
- E. Unfinished Discovery Contemplated by Defendant Midway.

The Magnavox Company
FORT WAYNE, INDIANA 46804

April 2, 1973

Midway Manufacturing Company
Schiller Park, Illinois

Gentlemen:

We recently learned that Atari, Inc. of Santa Clara, California has licensed you to make coin operated games such as their "Pong" game. In this regard, we would like to call your attention to U. S. Patent Nos. 3,659,284 and 3,659,285.

The subject patents are owned by Sanders Associates, Inc. of Nashua, New Hampshire, and we have an exclusive license under these and other related patents and applications.

Kindly inform us of your position concerning our patents. In the event that you are desirous of obtaining a non-exclusive license, I will be pleased to discuss this with our management. Otherwise, if you are manufacturing the "Pong" type games, we must ask that you discontinue any unauthorized infringement of the above patents.

Very truly yours,

T.A. Brady
Thomas A. Brady

mjr

Exh. A

The Magnavox Company

FORT WAYNE, INDIANA 46804

THOMAS A. PRIODY
CORPORATE PATENT COUNSEL

May 24, 1973

1219 432 65

Midway Manufacturing Company
Schiller Park, Illinois

RE: Midway Manufacturing Company
U.S. Patents 3,659,284 and 3,659,285

Gentlemen:

Reference is made to my letter of April 2, 1973, whereby we called your attention to our U.S. Patent numbers 3,659,284 and 3,659,285, with respect to your "Pong" games.

Please be advised that another relevant patent has recently issued to our licensor, Sanders Associates. This patent number is 3,728,430, and Magnavox also has an exclusive license under it.

As yet, no licenses have been granted. However, my management at Magnavox has indicated their willingness to grant non-exclusive licenses to reputable amusement game manufacturers at a reasonable royalty rate. The license would be limited to the amusement game field and also non-transferable. In view of the substantial investment of Magnavox in the "Odyssey" game business and our understanding of the significant profits involved in the application of these games to the amusement field, the reasonable royalty which we are asking of prospective licensees is seven percent (7%) of net sales billed, an initial advance on future royalties of Five Thousand Dollars (\$5,000), and a minimum payment of One Thousand Dollars (\$1,000) per year.

Kindly advise us of your position regarding this matter.

Very truly yours,

T. A. Priody

mh

EXH. B

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

MIDWAY MFG. CO.,
a corporation

Plaintiff,

v.

THE MAGNAVOX COMPANY,
a corporation

and

SANDERS ASSOCIATES, INC.,
a corporation

Defendants.

ACTION NO. 74 CIV. 1657 CBM

LETTERS PATENTS NOS. 3,659,284
3,659,285
3,728,480
3,778,058

COMPLAINT FOR DECLARATORY RELIEF

Plaintiff, Midway Mfg. Co., for its Complaint against defendants, The Magnavox Company and Sanders Associates, Inc. alleges that:

Parties

1. Plaintiff, Midway Mfg. Co., is a corporation organized and existing under the laws of the State of Illinois, and has its principal place of business at 3750 North River Road, Schiller Park, Illinois.

2. Defendant, The Magnavox Company, is a corporation organized and existing under the laws of the State of Delaware and has its executive offices at 345 Park Avenue, New York City, New York.

3. Defendant, Sanders Associates, Inc., a corporation of the State of Delaware, having an office at Daniel Webster Highway South, Nashua, New Hampshire.

Jurisdiction

4. This is an action for declaratory judgment under 28 U.S.C. §2201 and §2202. Jurisdiction and venue are based on

EXH. C

28 U.S.C. §§1338 and 1391(c) and the Patent Laws of the United States.

Statement of Claim

5. This action arises from an actual and justiciable controversy now existing between plaintiff and defendants with respect to the following United States Letters Patents and the alleged infringement thereof by plaintiff:

William T. Rusch Patent No. 3,659,284

Ralph H. Baer, et al. Patent No. 3,659,285

Ralph H. Baer . Patent No. 3,728,480

William T. Rusch Patent No. 3,778,058

Hereinafter, the term "patents" is used to mean either one or a plurality of the above listed patents.

6. Defendant Magnavox has asserted itself to be the exclusive licensee of Sanders Associates, Inc., under the patents with the sole and exclusive right to bring actions in law or equity on the patents.

7. Plaintiff is in the business of manufacturing and selling various types of coin-operated amusement machines and devices. Defendant Magnavox has charged that the manufacture, use and sale of certain of such coin-operated amusement machines and devices constitute infringement of said patents and has threatened plaintiff with suit for infringement of said patents unless plaintiff takes a license and becomes a sub-licensee of defendant Magnavox under said patents.

8. Plaintiff avers that it has not infringed and is not infringing any of said patents.

9. Plaintiff avers that the patents were not duly and legally issued, and further that they are invalid and void for

one or more of the following reasons:

- (a) The alleged inventions of said patents were known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the alleged inventions thereof by the applicants for said patents.
- (b) The alleged inventions of said patents were patented or described in printed publications in this or a foreign country, or in public use in this country, more than one year prior to the filing date of the first application for said patents in the United States disclosing or claiming the alleged inventions.
- (c) The alleged inventions were described in patents granted on applications for patent by others filed in the United States before the alleged invention thereof by the applicants for said patents.
- (d) The applicants for said patents did not themselves invent the subject matter sought to be patented in said patents and were not the original, first and/or joint inventors or discoverers thereof.
- (e) Before the alleged invention by the applicants for said patents, they were made in the United States by others who had not abandoned, suppressed or concealed such alleged inventions.
- (f) The subject matters set forth in said patents so far as it may be original with the applicants for said patents were not sufficient advances in the art to warrant the issuance of patents thereon.
- (g) The differences between the subject matter sought to be patented in each of said patents and the prior art are such that the subject matter as a whole would have been obvious

at the time the purported inventions were made to a person having ordinary skill in the art to which the purported inventions pertain.

(h) The alleged inventions are not described or shown in said patents in such full, clear, concise and exact terms as to enable one skilled in the art to practice the alleged inventions, nor do the patents set forth the best mode contemplated by the applicants for carrying out the alleged inventions.

(i) Said patents do not particularly point out or distinctly claim the alleged inventions.

(j) The applications filed by or on behalf of the applicants for said patents in the United States Patent Office contain less than a full disclosure of their alleged inventions or discoveries.

(k) If said patents are construed to cover coin-operated amusement games and/or devices manufactured and sold by plaintiff, the patents are invalid for want of patentable invention in view of the prior art, knowledge and uses.

(l) Defendants have unlawfully extended its monopoly by obtaining more than one patent on the same, or merely colorable variations of the same, alleged invention.

10. Said patents are invalid, void and unenforceable on the ground of double patenting.

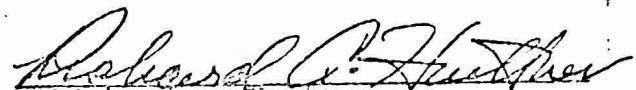
11. Plaintiff, upon information and belief, alleges that by reason of the proceedings in the United States Patent Office during the prosecution of the applications which resulted in the patents, and the admissions and the representations therein made by or on behalf of the applicants for said patents in order to induce the grant of a patent, defendants are estopped to

claim for any of the patents a construction, even if this were otherwise possible, which would cause the patent to cover or include the acts of plaintiff of which defendant Magnavox has complained.

WHEREFORE, plaintiff prays:

- (a) That this Court grant and enter a judgment or decree declaring that said United States Letters Patents are invalid and void and that said patents are not infringed by coin-operated amusement games and devices manufactured, used or sold by plaintiff.
- (b) That this Court enter a judgment or decree declaring that it is the right of plaintiff to make, use or sell the coin-operated amusement games and devices to which defendants' charges of infringement have been directed without any threats or other interference by or from defendants or arising out of the ownership of said patents or any interest therein.
- (c) That defendants, their officers, agents, servants, employees and attorneys be enjoined from charging or asserting that the manufacture, use or sale of the coin-operated devices as manufactured, used or sold by plaintiff is a violation of or an infringement of defendants' rights under said patents.
- (d) That the costs of this action and/or reasonable attorneys fees be assessed against defendants.

(e) That plaintiff be granted such other and further relief as the Court deems just and proper in the premises.



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(312) FR 2-7842

UNITED STATES MAGISTRATE
UNITED STATES DISTRICT COURT
UNITED STATES COURTHOUSE
FOLEY SQUARE

(212) NEW YORK 6161-10807, RECEIVED
FITCH, EVEN,

TABIN & LUEDEKA July 28, 1975

CHARLES J. HARTENSTINE, JR.
MAGISTRATE

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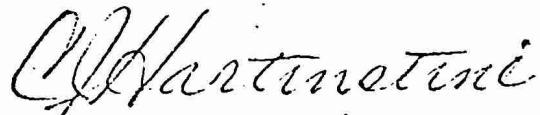
Re: Midway Mfg. Co. v. The Magnavox Company, et al.
74 Civ. 1557 (CRM)

Dear Sirs:

Enclosed for your information are copies of my report of July 28, 1975, to Judge Motley recommending that Magnavox's motion for an order transferring, dismissing or staying this action be denied in all respects.

Any comments on this report should be submitted to Judge Motley in writing (with a copy to me) on or before August 11, 1975.

Very truly yours,



Charles J. Hartenstein
United States Magistrate

cc: Judge Motley

Enclosure

EXH. D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----- X

MIDWAY MFG. CO.,

Plaintiff, :

MAGISTRATE'S
REPORT

-against-

74 Civ. 1657 (CBM)

THE MAGNAVOX COMPANY and
SANDERS ASSOCIATES, INC.,

Defendants.

----- X

A motion by defendant The Magnavox Company ("Magnavox") was referred to the undersigned by Judge Motley to hear and report my recommendations. It seeks (1) an order under 28 U.S.C. §1404(a) transferring this action to the Northern District of Illinois, Eastern Division, or (2) an order dismissing this action on the ground that the issues raised are involved in the case of The Magnavox Company v. Bally Manufacturing Corporation, which is pending there, or (3) an order staying all further proceedings in this action pending disposition of that case on the ground that that case will be substantially determinative of the issues here.

Having heard the attorneys for the parties to the motion, and having read the motion papers and exhibits as well as the complaint filed with this court, it is my recommendation that in the exercise of discretion the Magnavox motion should be denied in all respects.

I

This is an action for declaratory and injunctive relief under 28 U.S.C. §2201, 2202. It was commenced April 12, 1974, by plaintiff ("Midway"), an accused infringer of four letters patent held by defendant Sanders Associates, Inc. ("Sanders"), and licensed by Sanders to Magnavox exclusively. Midway seeks a determination of the invalidity or noninfringement of these patents and an order enjoining defendants from charging Midway with an infringement of the patents.

Jurisdiction of this court is invoked under 28 U.S.C. §1338(a), which provides:

"The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents...."

The complaint alleges (¶4) that suit was brought in this district under 28 U.S.C. §1331. That statute

provides for venue generally, and reads in pertinent part:

"(b) A civil action wherein jurisdiction is not founded solely on diversity of citizenship may be brought only in the judicial district where all defendants reside, or in which the claim arose, except as otherwise provided by law.

"(c) A corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business, and such judicial district shall be regarded as the residence of such corporation for venue purposes."

The complaint alleges that Midway is an Illinois corporation having its principal place of business in that State (#1); that Magnavox is a Delaware corporation having its executive offices in this city (#2); and that Sanders is a Delaware corporation having its office in Nashua, New Hampshire (#3). In support of this motion the April 20, 1974, affidavit of Theodore W. Anderson, one of the attorneys for Magnavox, states that both defendants are licensed to do business in the State of Illinois (#1). And at the argument of this motion it was undisputed that Magnavox's principal place of business is in the State of Indiana; that Sanders

maintains a sales office in New York City; and that Midway is a wholly owned subsidiary of Bally.

II

A

Title 28, Section 1404, of the United States Code, authorizing a change of venue, provides in pertinent part:

"(a) For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought."

The power of a District Court to transfer an action to another district depends upon whether the proposed transferee district is one in which the action "might have been brought." Hoffman v. Blaski, 363 U.S. 335, 343-344 (1960). This language of Section 1404(a) permits transfer only to a district in which the plaintiff would have had a right to sue without regard to consent by the defendants. Id. at 344. It has been interpreted to mean a district where venue would have been proper and the defendants would have been amenable to process. Foster-Milburn Co. v. Knight, 181 F.2d 949 (CA2 1950). For an action is not "brought" within Section 1404(a) when it is

"commenced" by filing a complaint with the court under F.R.Civ.P. 3; Section 1404(a) presupposes that the defendants can be served. Id. at 951.

On the record presented it seems clear that this action might have been brought in the Northern District of Illinois, Eastern Division. It is a civil action. Jurisdiction is not founded solely on diversity of citizenship. And it is undisputed that on April 12, 1974, when the complaint was filed here, both defendants were residents of the proposed transferee division, where they were licensed to do business, 28 U.S.C. §1331(b)(c), and where they would have been amenable to process issuing out of the District Court. F.R.Civ.P. 4(f).

B

Whether this court should exercise its power to transfer this action to the Northern District of Illinois, Eastern Division, for "the convenience of the parties and witnesses, in the interest of justice," is a matter committed to its discretion. Wyndham Associates v. Bintliff, 398 F.2d 614, 621 (CA2 1968).

The relevant factors to be weighed and considered emerge from legislative history and the cases. According to the

Reviser's Notes, when the United States Code was revised in 1948 Section 1404(a) was drafted in accordance with the doctrine of forum non conveniens and requires the trial judge to determine that the transfer is necessary for the convenience of the parties and witnesses and that it is in the interest of justice. United States Congressional Service (1948), at 1853. But in Norwood v. Kirkpatrick, 349 U.S. 29 (1955), the Court noted that in writing Section 1404(a) Congress was "revising as well as codifying" the law on forum non conveniens. Id. at 32. Consequently, the Court said, "...Congress, by the term 'for the convenience of parties and witnesses, in the interest of justice,' intended to permit courts to grant transfer upon a lesser showing of inconvenience." Ibid.

The Court then went on to explain:

"This is not to say that the relevant factors have changed or that the plaintiff's choice of forum is not to be considered, but only that the discretion to be exercised is broader." Ibid.

The "relevant factors" and consideration of the "plaintiff's choice of forum" had been evaluated in two earlier cases, Gulf Oil Corp. v. Gilbert, 330 U.S. 501 (1947),

and Koster v. Lumbermens Mutual Casualty Co., 330 U.S. 518 (1947). The factors set out in Gulf Oil include:

- 1) Relative ease of access to sources of proof;
- 2) Availability of compulsory process for attendance of unwilling witnesses;
- 3) Cost of obtaining attendance of willing witnesses;
- 4) Possibility of viewing premises, if view would be appropriate to the action;
- 5) All other practical considerations which make trial of a lawsuit easy, expeditious and inexpensive.

330 U.S. at 508.

These factors, as modified by the Court in Norwood, supra, have been adopted by this court in subsequent cases under Section 1404(a). E.g., Schneider v. Sears, 265 F. Supp. 257, 263, 266 (SDNY 1957).

Having moved for a change of venue, Magnavox has the burden of showing the necessity for such a transfer. Blue Bell, Inc. v. Jaymar-Ruby, Inc., 311 F.Supp. 942 (SDNY 1969). More particularly, it must make a "clear showing," an "appropriate affirmative showing," that when all the relevant factors are considered the proposed new forum would be more convenient for the parties and witnesses

(not equally convenient or inconvenient) and the interests of justice would be better served in that district.

U.S. Industries v. Proctor & Gamble, 348 F. Supp. 1265, 1268 (SDNY 1972).

Viewing these legal considerations against the background of this action and the case pending in Chicago, and weighing the reasons advanced by Midway for its choice of this forum and the grounds pressed by Magnavox for litigating this action in the Northern District of Illinois, it seems to me that transfer there would not be more convenient for the parties, or the witnesses, and would not be in the interest of justice.

Background of this Action

It appears from Mr. Anderson's April 20, 1974, affidavit in support of this motion that the four patents in suit here relate to so-called "video games" (¶3).

Mr. Anderson goes on to say (¶8) that Magnavox sought unsuccessfully to license Midway. More particularly, it appears that Magnavox contacted Midway through Bally concerning a proposed sub-license under the patents. On February 27, 1974, Magnavox mailed to Bally's general counsel a proposed

license agreement. On March 7 Bally informed Magnavox that the matter had been referred to its patent counsel; on April 3 Magnavox mailed to Bally's patent counsel, at his request, prior-art references relating to the patents; and on April 9 Magnavox mailed to Bally a revised proposed license agreement. Three days later Midway commenced this action.

The Consolidated Cases in Chicago

In his affidavit of April 20, 1974, Mr. Anderson states that Magnavox's exclusive license under the patents gives it the right to bring actions for infringement (¶3).

He says that on April 15, 1974, three days after this action had been commenced, Magnavox commenced an action against Bally in the Northern District of Illinois (¶9). That action is for patent infringement, involving two of the four patents involved here (Exhibit A to the April 20, 1974, affidavit of Mr. Anderson). It named five defendants, Bally, Chicago Dynamic Industries, Inc. ("Chicago"), Atari, Inc., Allied Leisure Industries, Inc. ("Allied"), and Empire Distributing, Inc. ("Empire"). (Ibid.)

In an affidavit of May 22, 1974, Mr. Anderson states that on May 22, 1974, in the Illinois case the court granted Magnavox's motion for leave to file an amended complaint, adding Sanders as a party plaintiff and Midway as a party defendant (¶2).

In an affidavit of August 30, 1974, Mr. Anderson states that

- 1) On August 30, 1974, Magnavox and Sanders commenced a second action in the Northern District of Illinois. The second Illinois case was brought against Seeburg Industries, Inc., The Seeburg Corporation of Delaware, Williams Electronics, Inc., and World Wide Distributors, Inc. (¶4)
- 2) The second case is for patent infringement of the same two patents involved in the first case there (Exhibit C to the August 30, 1974, affidavit of Mr. Anderson).
- 3) In the first Illinois case, depositions indicate that Empire is the exclusive distributor for Allied, and that Allied has sold video games to Empire (¶¶2-3).
- 4) In the second Illinois case, Williams Electronics is a wholly owned subsidiary of The Seeburg Corporation, which is a wholly owned subsidiary of Seeburg Industries, and Seeburg

Industries manufactures video games of a type alleged to infringe the two patents in suit there (¶4).

5) In the second Illinois case, World Wide Distributors makes, sells or leases video games of a type alleged to infringe the two patents in suit there (¶4).

In an affidavit of October 26, 1974, Mr. Anderson states that on October 25, 1974, the first and second actions pending in Illinois were consolidated under the lower docket number (74 C.1030) for all purposes (¶4).

Opposing this motion, Midway submitted affidavits by Donald L. Welsh, one of its attorneys.

In an affidavit of May 17, 1974, Mr. Welsh states that Midway and Empire are wholly owned subsidiaries of Bally (¶2); that of Midway, Empire and Bally, only Midway manufactures devices relating to video games, and only Midway and Empire sell such devices (¶4).

In an affidavit of August 23, 1974, Mr. Welsh states that by stipulation on or about August 1, 1974, the complaint in the first Illinois case was dismissed without prejudice as against Atari and Allied (¶2).

Thus, it appears that the consolidated cases pending

in the Northern District of Illinois are for infringement of two of the four patents involved in this declaratory action. The first action there was commenced three days after this one; the second action there was commenced some four months and 18 days after this one. The parties there, as identified here, are as follows:

Plaintiffs

Sanders - Holder of all the patents and a defendant here.

Magnavox - Exclusive licensee of all the patents, having the right to sue in its own name for infringement, and a defendant here.

Defendants

Midway - Accused infringer of all the patents (including two patents here not in suit there), by manufacturing and selling devices relating to video games, and the plaintiff in this action.

Chicago - Manufactures devices relating to video games.

Empire - Subsidiary of Bally; sells devices relating to video games.

Bally - Parent company of Midway and Empire.

Seeburg Industries - Manufactures devices relating to video games.

The Seeburg Corporation - Subsidiary of Seeburg Industries.

Williams Electronics - Subsidiary of The Seeburg Corporation

World Wide Distributors - Manufactures, sells or leases video games.

Midway's Choice of this Forum

According to its counsel's memorandum in opposition to this motion (pages 3-4), Midway brought this action here for a number of reasons, including these:

- 1) The real parties in interest to the four patents in suit are these three parties: Sanders, owner of the patents; Magnavox, its exclusive licensee; and Midway, accused of infringing the patents by manufacturing certain devices.
- 2) Sanders offices and its facilities where the work leading to the patents was performed are in New Hampshire, which is closer by many miles to New York City than to Chicago.
- 3) All the inventors named in the four letters patent reside in New Hampshire.
- 4) Magnavox executive offices are in New York City, and Sanders has a sales office here.
- 5) Midway's facilities in Illinois may be a source of evidence, but those facilities (including personnel) are subject to Midway's control.
- 6) Other witnesses expected to be examined are outside both this district and the Northern District of Illinois.

In sum, Midway says, New York City is more convenient than Chicago, considering the location of Sanders offices and facilities, the inventors residences and Magnavox's executive offices.

None of these underlying factors is seriously challenged on this motion; indeed, most of them (if not all) are not even in dispute as matters of fact. Certainly, as reasons justifying Midway's choice of this court, they are sufficient to pass muster. They are "not wholly frivolous." See William Gluckin & Co. v. International Playtex Corp., 407 F.2d 177, 178 (CA2 1969). Nor does the alignment of parties present "jumbled plaintiffs and defendants." See Rayco Manufacturing Co. v. Chicopee Manufacturing Corp., 148 F.Supp. 588, 594 (SDNY 1957). And not all the issues raised in this action are present in the case pending in Illinois; here four patents are in suit, there only two are in suit. See Rayco, supra, at 594. In these circumstances, no finding of "forum shopping" by Midway should be made.

Magnavox's Request for Transfer

In a memorandum in support of this motion (pages 4-9), Magnavox seeks a transfer of this action to the Northern District of Illinois, Eastern Division, for these reasons:

- 1) Magnavox manufactures apparatus for playing video games; the apparatus was designed in Fort Wayne, Indiana, and is manufactured in Greenville, Tennessee.
- 2) Magnavox's principal place of business is in Fort Wayne, Indiana.
- 3) Midway manufactures devices for playing video games; its design and manufacturing facilities are located in a suburb of Chicago, where it has its principal place of business.
- 4) Bally, Midway's parent company, has its principal place of business in Chicago.
- 5) If this action were transferred to the Northern District of Illinois, the local rules of that court indicate that this action would be assigned to the district judge having the two consolidated cases pending there; furthermore, (Magnavox says), it seems likely that the district judge there would consolidate this action with those two pending consolidated cases.
- 6) The Illinois case charges infringement by accused devices manufactured by defendants not parties to this action, except Midway, so that case would have to proceed to trial on those devices regardless of whether this action is transferred there.

7) The fact that this court is Midway's choice to litigate this action should be given no weight in considering Magnavox's motion, because (Magnavox says) Midway was "forum shopping."

8) Trial counsel for Midway and trial counsel for Magnavox have their offices in Chicago.

In a reply memorandum (page 5) Magnavox adds as a reason for transfer that both signatories of the license agreements on behalf of Magnavox have their principal offices in Fort Wayne, Indiana, where they reside, and the Magnavox representative involved in negotiating the license agreements is no longer with Magnavox but resides in Fort Wayne.

In a post-hearing memorandum (page 3) Magnavox submits as additional reasons for transfer that

1) Chicago is as accessible by air travel from Nashua, New Hampshire, as is New York City.

2) Magnavox will produce in Chicago any documents, things or witnesses to be produced in pre-trial or trial proceedings in the Illinois case, so (Magnavox says) travel to Nashua, New Hampshire, from Chicago will be unnecessary.

3) Statistics indicate that this action would be reached for trial in Chicago 18 months earlier than in this court.

In his affidavit of October 26, 1974, Mr. Anderson adds these reasons:

- 1) Neither Magnavox nor Sanders would oppose a motion by Midway in the consolidated cases in Illinois to add a counterclaim under the Declaratory Judgment Act concerning the two patents that are in suit here but not there (¶4).
- 2) Pre-trial discovery is proceeding in the Illinois case (¶7).

Midway opposes this motion to transfer for the reasons it advances for having commenced suit in this district. Additional reasons are submitted in its memorandum in opposition to the motion (pages 3-6) as follows:

- 1) Midway will produce in this court, for the trial of this action, any Midway personnel requested by Sanders or Magnavox.
- 2) The object of the Illinois case (Midway says) is to apply pressure to the defendants there to accept sub-licenses from Magnavox.

In a reply memorandum (page 3) Midway submitted as an additional reason in opposition that Magnavox, despite having its headquarters and executive offices in New York City, chose patent trial counsel from Chicago; in these circumstances, (Midway says) choice of trial counsel should have no bearing on the disposition of this motion.

In a supplemental memorandum (page 2) Midway submitted as an additional reason that discovery is going forward in this action.

In a post-hearing memorandum (pages 1-5) Midway submitted as additional reasons why transfer should be denied that

1) In response to Midway's interrogatories Sanders and Magnavox chose to offer their business records in lieu of answers, as authorized by Rule 33(c); Magnavox's records were to be made available in Fort Wayne and Sanders's records were to be made available in Nashua, New Hampshire.

2) From answers to Midway's interrogatories it appears that

- (a) At Sanders facilities in New Hampshire at least seven persons appear to have knowledge of discoverable matter;
- (b) On the East Coast some 19 persons appear to have knowledge of discoverable matter.

3) The major portion of the design of Midway's accused devices was performed by Atari, in California, not in the Northern District of Illinois.

As indicated earlier in this report, under the cases the "idea behind" Section 1404(a) is that when a civil action to vindicate a wrong - however brought in a court - presents issues and requires witnesses which make one District Court more convenient than another, the trial judge can, after findings, transfer the action to the more convenient court.

Continental Grain Co. v. Barge FBL-585, 364 U.S. 19, 26 (1960).

It reflects a desire to have suits in the federal system go forward at the place called for by considerations of convenience and justice. Van Dusen v. Barrack, 376 U.S. 612, 616 (1964). To advance these considerations, impediments to the prosecution of this action should be avoided, for at least three reasons. First, under the patent laws patentees are heavily favored as a class of litigants. Blonder-Tongue v. University Foundation, 402 U.S. 313, 335 (1971). "A patent shall be presumed valid." 35 U.S.C. §282. The burden of establishing invalidity "shall rest on a party asserting it." Ibid. And the defenses of invalidity of the patent, noninfringement, or any other fact or act made a defense under the statute,

"shall be pleaded." Ibid.

Second, patent litigation is a very costly process. Blonder-Tongue, supra, at 334. The average cost for litigating a patent is about \$50,000. Id. at 335. But costs to a party asserting invalidity exceed those of the patentee, for he must introduce evidence to overcome the presumption of validity and rebut proof offered by the patentee in support of validity. Ibid. And in the end, the financial burden may run to hundreds of thousands of dollars (id. at 336), even though the court "in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. §285. For this reason, one of the benefits of accepting a license from a patentee (or, as here, a sub-license from a licensee) is avoiding defense of an expensive infringement action. Lear, Inc. v. Adkins, 395 U.S. 653, 669 (1969). Thus, being expensive, no one embarks upon patent litigation lightly. Blonder-Tongue, supra, at 336, n.28.

Third, the public has an interest in the outcome. A patent is a privilege. Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661, 665 (1944). It results from invention and is limited to the invention which it defines. Ibid. Being an exception to the general rule against

monopolies, its social and economic consequences

"...give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope."

Prescision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806, 816 (1945). In support of this paramount interest of the public, obstacles to suit by those disposed to challenge the validity of a patent have been removed. E.g., a manufacturer of a device need not await the filing of an infringement action in order to test the validity of a competitor's patent; instead, he may institute his own suit under the Declaratory Judgment Act. Kerotest Mfg. Co. v. C-O-Two Co., 342 U.S. 180 (1952). See also Lear, Inc. v. Adkins, 395 U.S. 653 (1969), holding that in an action to recover royalties under a license agreement the licensee is not estopped to deny the validity of the underlying patent. Id. at 670-671.

On this motion, as I read the record presented, the court should conclude that for considerations of convenience and justice, avoiding impediments to the prosecution of this action, Midway's desire to go forward with its

case in this district should not be disturbed. The reason is that Magnavox has failed to sustain its burden of showing that the Northern District of Illinois, Eastern Division, would be more convenient for the parties and witnesses and the interest of justice would be better served there. In support of this conclusion the record would support findings of fact along the following lines:

Sanders is the owner of four patents; Magnavox is its exclusive licensee. Midway has been accused by Magnavox of infringing the patents. After at least a preliminary study Midway's patent counsel determined that either the four patents in suit were invalid or the accused device manufactured by Midway was not an infringement of those patents. Midway's general counsel, having this opinion by patent counsel, determined that a sub-license agreement proffered by Magnavox was not acceptable. Unwilling to await the filing of an infringement action, Midway instituted its own suit for declaratory judgment and related relief concerning the four patents. Its choice of this court as the forum for its claims was based on serious reasons, not wholly frivolous, having a valid connection with this district. This is not a so-called

"customer suit."

The consolidated case pending in the Northern District of Illinois was commenced subsequent to this action. It was brought by Magnavox, Sanders being added as a party plaintiff in the first action but named originally as a plaintiff in the second, for infringement of two of the four patents involved here. Midway was added as a defendant in the first case there, which also names as defendants Bally (Midway's parent company) and Empire (another subsidiary of Bally). Empire sells devices relating to video games; Bally neither manufactures nor sells such devices. In the consolidated case there are at least four defendants unrelated to Midway. The accused devices manufactured by at least two of the unrelated defendants there are different from the device manufactured by Midway; each accused device will stand or fall on its own merit, as will the validity of each of the four patents.

The processes leading to the four patents were developed at Sanders facilities in Nashua, New Hampshire, where all the inventors reside and where Sanders documents and personnel having knowledge of discoverable matter are located. Sanders has a sales office in New York City.

Magnavox has its headquarters and executive offices in New York City, although it retained Chicago trial counsel for this action. Magnavox has its principal place of business in Fort Wayne, Indiana, where prospective witnesses are employed or reside. Magnavox manufactures devices under its license in Greenville, Tennessee; the devices were designed at Magnavox's facilities in Fort Wayne.

Both Sanders and Magnavox are licensed to do business in Illinois.

Midway manufactures a device accused of infringing all the patents involved in this action. It has its principal place of business in a suburb of Chicago, where the accused device is manufactured. The device was designed largely in California by Atari, Inc., which was named as a defendant in the Chicago case but was dropped as a party there by stipulation of Sanders and Magnavox. Midway's trial counsel has its office in Chicago.

Convenience

Midway selected this court, raising issues involving four patents held by Sanders and licensed to Magnavox.

At the outset of the Chicago case Magnavox had to make adjustments in the parties by motion practice, Sanders being added as a plaintiff, Midway being added as a defendant, and Atari and Allied being dropped as defendants. Not all the issues raised here are presented there, and vice versa, two additional patents being involved in this action and at least two additional accused devices being involved in the consolidated cases pending in Chicago. But all the issues between all the parties here are presented here.

If this action remains here it will proceed to trial through pre-trial discovery proceedings where Magnavox has an important office (its headquarters and executive office); if it is transferred to Chicago, Magnavox's nearest office (and its personnel and records) will be not only in another district but in another State. Moreover, the Magnavox office in Fort Wayne has been characterized by Magnavox counsel as the "principal" office of certain personnel. It is reasonable to assume from this that those persons travel from time to time to Magnavox's headquarters in this city. It is equally reasonable to assume that Magnavox records are either maintained at its headquarters, can be transferred here or can be copied and then sent here with minimal disruption of

its business. But if this case were transferred to Chicago, production of personnel and documents being made to flow in the opposite direction (from this city to Fort Wayne, Indiana), it would hardly seem to be more convenient.

Sanders maintains a sales office in this city; however, it prefers to make document production at its office in Nashua, New Hampshire, and pursuant to Rule 33(c) it has specified certain of its business records in response to interrogatories propounded by Midway. In discovery proceedings Midway proposes to inspect Sanders facilities where the processes leading to the patents were developed, to examine Sanders personnel and inspect Sanders records, and to examine all the inventors. It would hardly seem more convenient to initiate these discovery proceedings by transporting all those facilities, personnel, records and inventors from New Hampshire to Chicago as Magnavox offers to do. At all events, on the record presented, it cannot be found that Sanders personnel and all the inventors would deem it more convenient to travel to Chicago than to New York City, or indeed that they would be willing to make

the necessary travel by air. Riso Kagaku Corporation v. A.B. Dick Co., 300 F.Supp. 1007 (SDNY 1969).

Interest of Justice

Midway has submitted the names of some 19 additional witnesses. It represents that Magnavox's answers to interrogatories show they have knowledge of discoverable matter under Rule 26(b)(1), concerning the alleged invalidity of the Sanders patents, and that they all are located on the East Coast. This allegation and these prospective witnesses may well constitute the heart of Midway's case. Under the applicable law, however, this sort of case must be proved by Midway, and proved to the extent necessary to overcome the presumption in favor of Sanders (and Magnavox) that the four patents in suit are valid. Certainly, if litigation of this action were to remain on the East Coast where the witnesses are located, and counsel would have to travel, costs to Midway would be far less than if this action were transferred to Chicago where counsel are located but the 19 witnesses would have to travel. Having in mind the public interest in the outcome of patent litigation, Justice might well set its face against transfer for this reason alone.

III

As alternative relief on this motion Magnavox seeks

(a) an order dismissing the complaint, or (b) an order staying all further proceedings in this action pending final disposition of the consolidated cases now pending in the Northern District of Illinois. On the record presented, and in the exercise of discretion, neither application should be granted.

(a) Magnavox seeks an order dismissing the complaint, because (it says) the "same issues" raised in this action "are involved" in the Chicago case. Its application for this relief is addressed to the sound discretion of the District Court. Hammett v. Warner Brothers Pictures, 176 F.2d 145, 148 (CA2 1949). The standard governing such an exercise of discretion is whether this action will serve a useful purpose, or could be of some practical convenience to the parties. Id. at 149. As I read the record, this question should be answered in the affirmative, for these reasons:

First, all the issues raised in this action are not present in the consolidated cases in Chicago. Here Midway

seeks declaratory and injunctive relief with respect to four patents, two of which are not part of Sanders and Magnavox's infringement actions there.

Second, all the issues raised in the consolidated cases pending in Chicago, in the present posture of those cases, are not raised in this action. There Sanders and Magnavox have joined as defendants manufactures not related to Midway, and at least two defendants there unrelated to Midway are charged with infringement of the two patents there in suit by manufacturing or selling devices different from the device manufactured by Midway.

Third, all the issues between Midway on one side and Sanders and Magnavox on the other are raised in this action.

Thus, a final disposition of the case in Chicago would not settle the entire controversy between the parties here, even as a final disposition of this action would not settle the entire controversy between the plaintiffs and the unrelated defendants and Midway there. But there can be a complete determination of all the issues between the parties to this action in this action, and at this juncture only here can all these issues be determined. Furthermore,

on this motion there is no question that the issues raised in this action are not so complex and unyielding that they could not be resolved by this court as urged by Midway in its complaint.

It follows, it seems to me, that this action will serve a useful purpose and could be of some practical convenience to the parties.

(b) Magnavox seeks an order staying further proceedings in this action, because (it says) "the Illinois action will be substantially determinative of the issues in this action."

This action was commenced three days before the first case was filed in Illinois and some four months and 18 days before the second case was filed there. Midway was added as a party defendant there one month and 10 days after this action had been commenced; the two cases were consolidated six months and thirteen days after this action had been commenced. From any starting point, this action was the first commenced. As the first action to present all the issues between the parties, it should not be stayed in favor of second and third actions, absent a showing of a balance of convenience in favor of the later-filed actions.

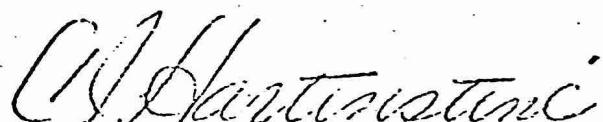
Mattel, Inc. v. Louis Marx & Co., 353 F.2d 421 (CA2 1965).

In my view, as explained in Part II-B of this report, Magnavox has not made the requisite showing of a balance of convenience in favor of the consolidated cases pending in the Northern District of Illinois, and therefore no stay should be granted.

Accordingly, it is my recommendation that this motion by Magnavox should be denied in all respects.

Dated: New York, N.Y.
July 28, 1975

Respectfully submitted,



Charles J. Hartenstine
United States Magistrate

July 28, 1975

MAGNAVOX, ET AL V. BALLY, ET AL - 74 C 1030 and 74 C 2510

UNFINISHED DISCOVERY CONTEMPLATED BY DEFENDANT MIDWAY

Estimated Time

1 week	1. Complete inspection of Sanders' documents at Nashua, New Hampshire.
2 weeks	2. Preparations for depositions at Sanders including examination of copies of documents requested from but not yet furnished by plaintiffs (i.e. copies of documents already inspected at Chicago and Nashua, New Hampshire).
4 weeks	3. Depositions at Sanders in Nashua, New Hampshire (5 persons).
2 weeks	4. Inspection of Magnavox documents at Ft. Wayne, Indiana scheduled for August 4.
1 week	5. Depositions of Magnavox at Ft. Wayne, Indiana.
2 weeks	6. Preparation of requests for admissions and some additional interrogatories to narrow issues for trial.
4 weeks	7. Investigation of the Spacewar video game of 1961-66, and depositions of various third parties in California and Massachusetts (approximately 15 persons) regarding the same.
2 weeks	8. Inspection of documents and depositions of third parties on East Coast regarding Sanders' demonstrations and negotiations relating to the sale or licensing of the patented subject matter prior to filing of the applications for patents.
1 week	9. Deposition of plaintiffs' expert (identification requested by interrogatory but not yet furnished by plaintiffs).

19 weeks